

U.S. and Washington Economic Outlook

Presented to
SW Washington Estate Planning Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

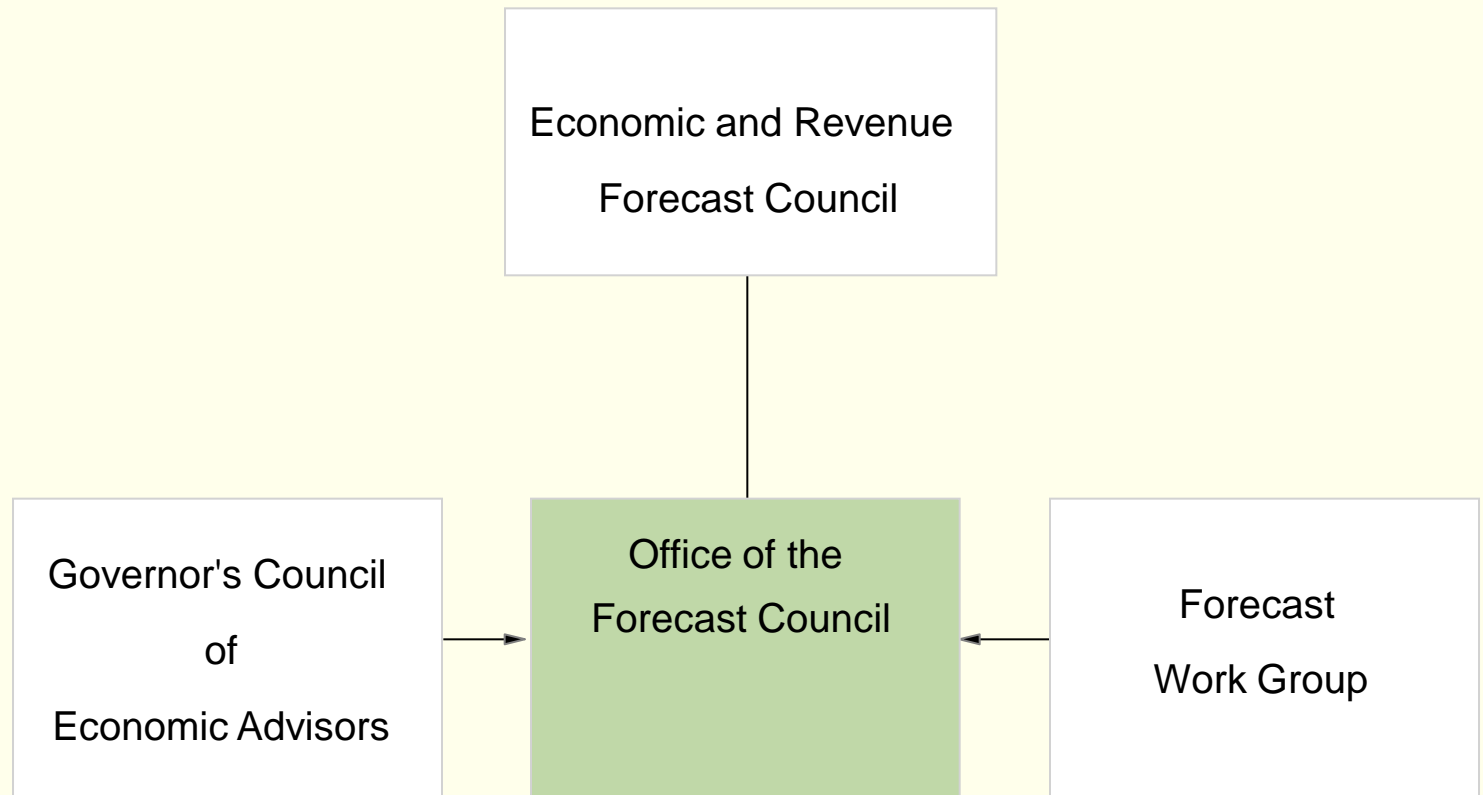
- Oil prices have declined further since the November forecast
- 2014 and 2015 GDP growth are slightly stronger than in the November forecast
- Employment gains indicate a strengthening labor market, but the number of long-term unemployed remains elevated
- Risks to the baseline include the potential for slower Chinese economic growth, a Greek exit from the Eurozone, disruptions to the housing recovery and geopolitical unrest
- The GF-S revenue forecast has been increased by \$107 million for the 2013-15 biennium and by \$129 million for the 2015-17 biennium



Forecast Oversight

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is based by the Global Insight model



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Economic news continues to suggest risks to forecast

- Upside:
 - Declining initial unemployment claims
 - Average U.S. monthly increase of 336,000 net new jobs the past three months
 - Low gasoline prices
- Downside:
 - Slowing Chinese, Japanese, European economies
 - Lackluster housing activity
 - Instability in Middle East, Ukraine/Russia



Unemployment claims are at pre-recession levels

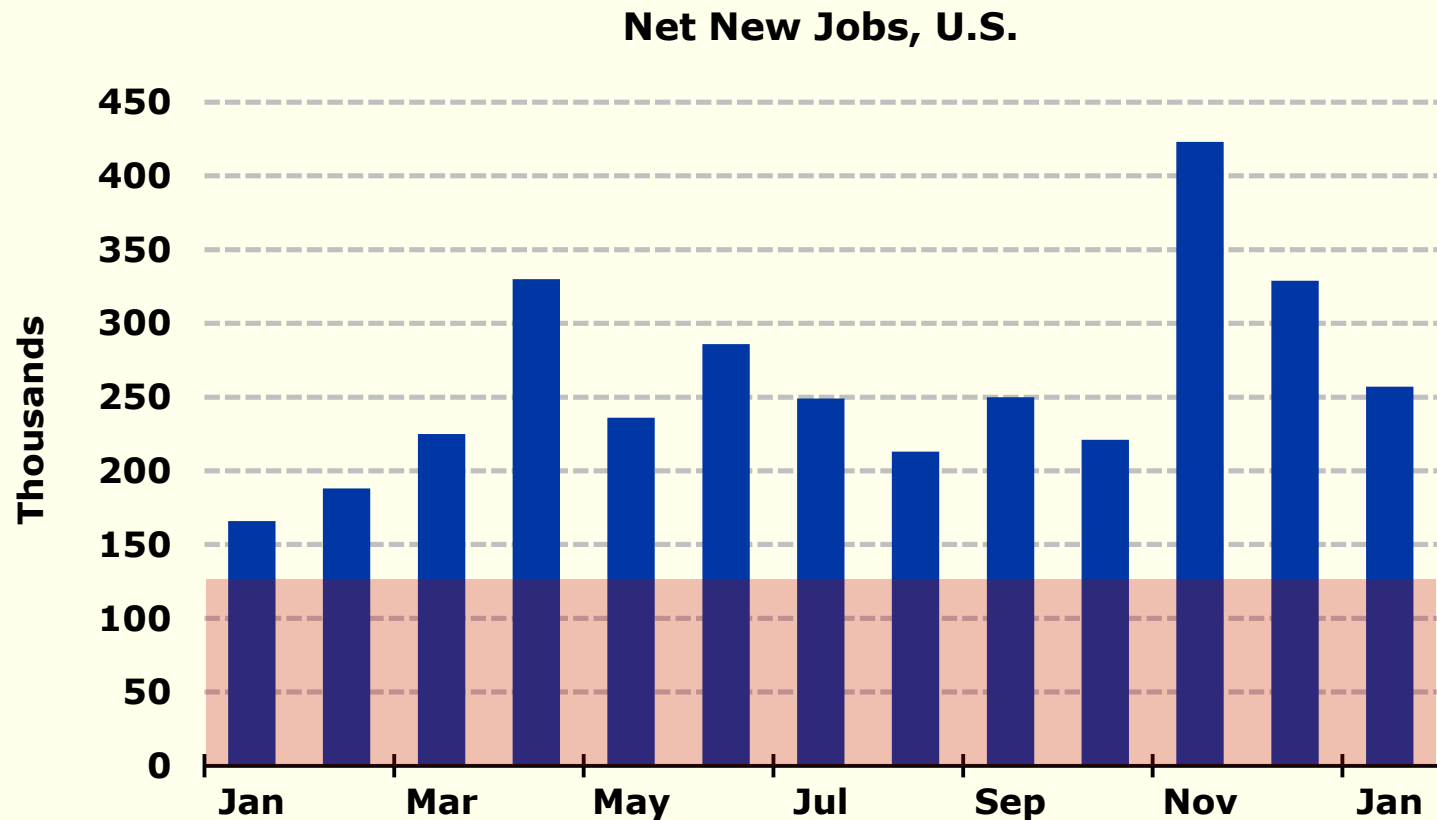


Source: U.S. Dept. of Labor; data through February 14, 2015



Monthly job growth has averaged over 250,000 net new jobs since last year

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through January 2015



Average U.S. wage growth is barely outpacing inflation



Source: U.S. Bureau of Labor Statistics, data through December 2014



Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010: 46%

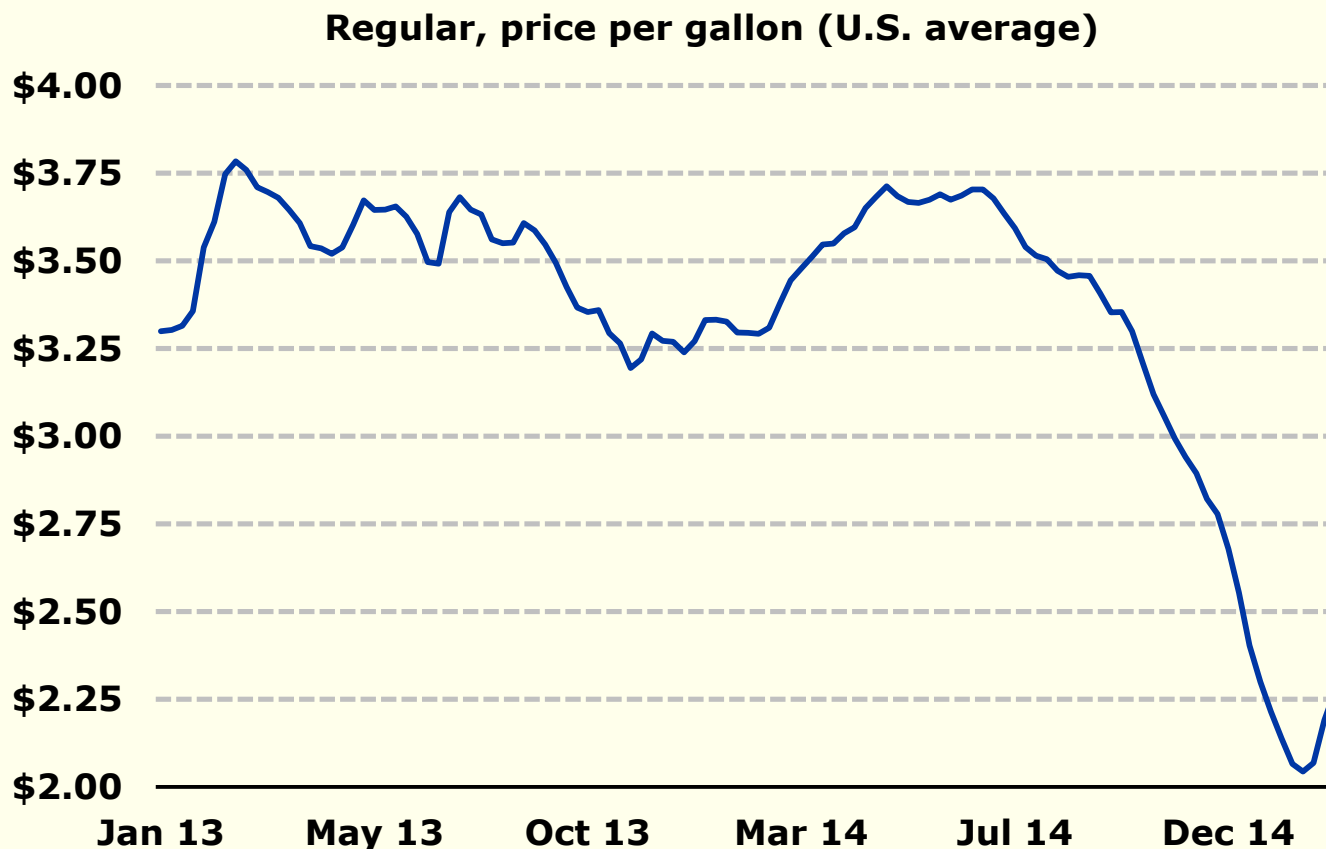
Jan. 2015: 32%



Source: Bureau of Labor Statistics; data through January 2015



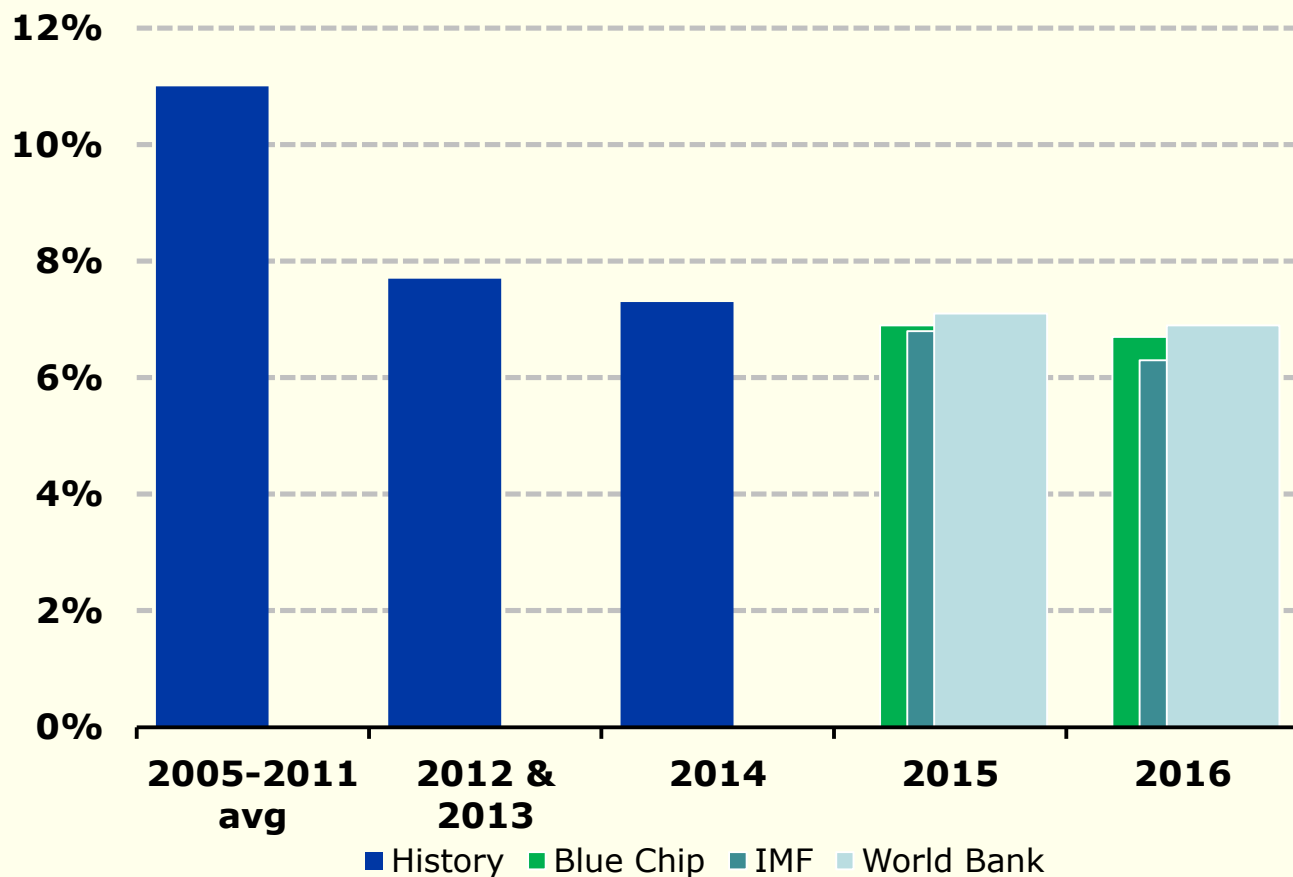
Gasoline prices remain low



Source: Dept. of Energy, weekly data through February 16, 2015

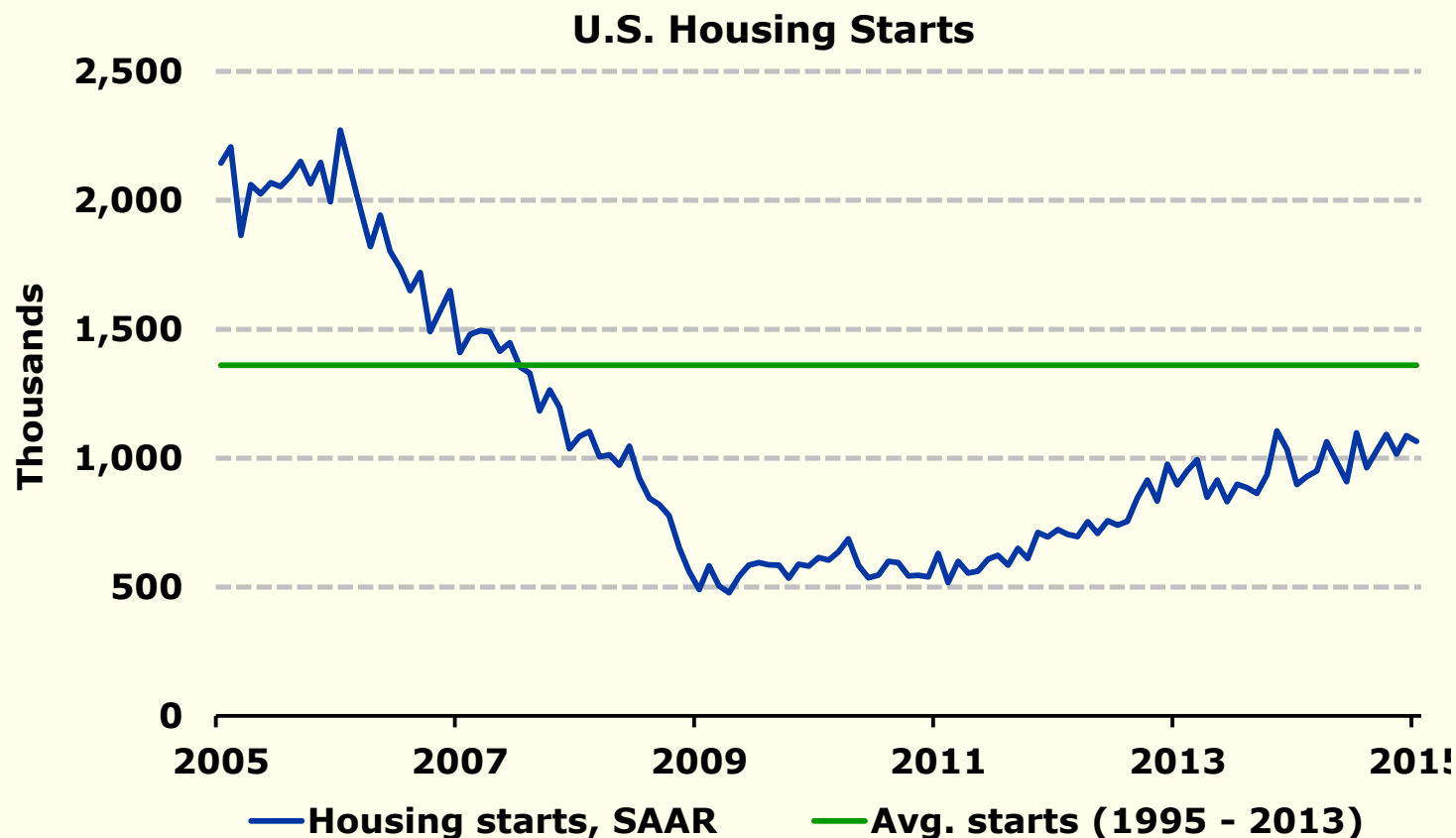


China's 2015 & 2016 GDP growth expected to be below 2014 rate



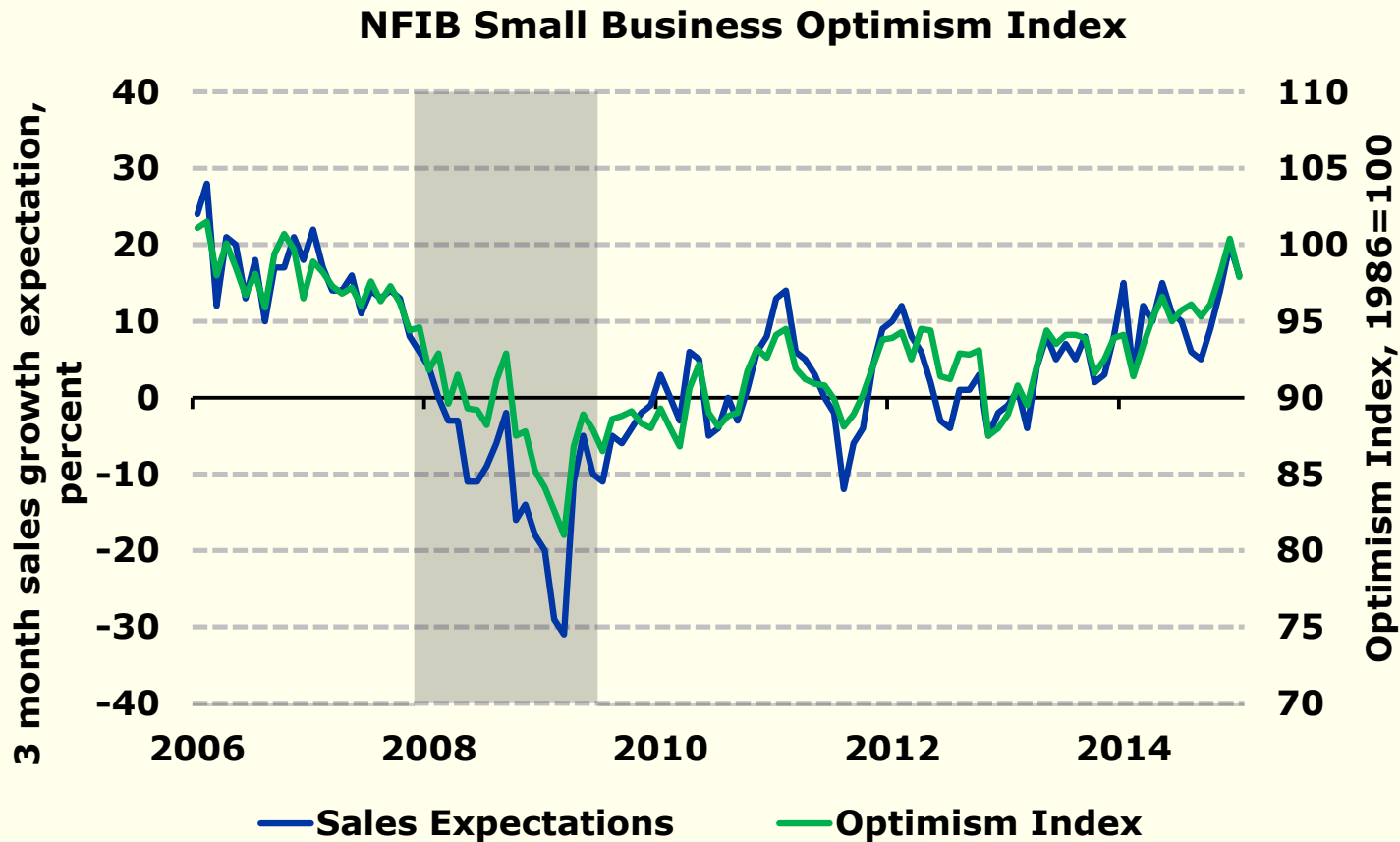


Housing starts are trending up but remain below historic average





Small business optimism and sales expectations getting back to pre-recession levels



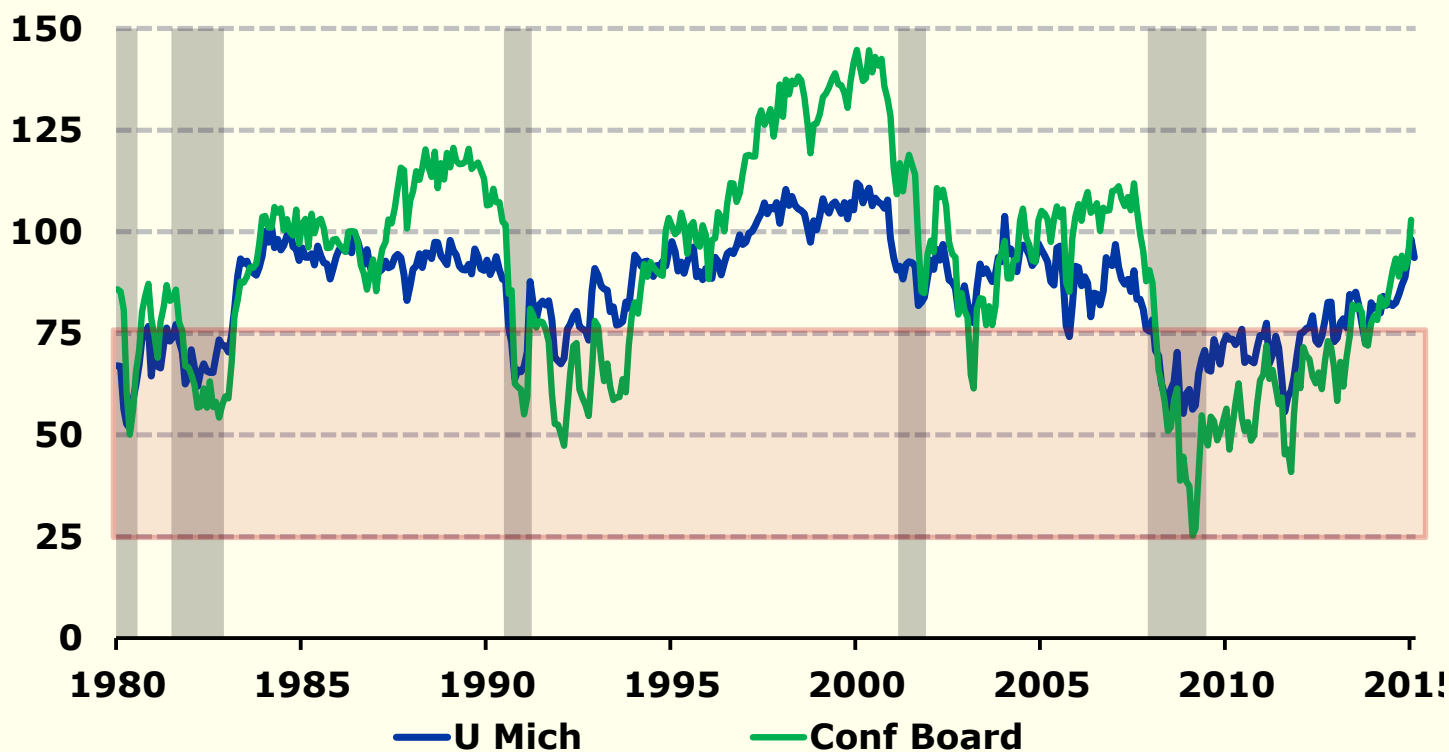


Consumer confidence is improving

Index

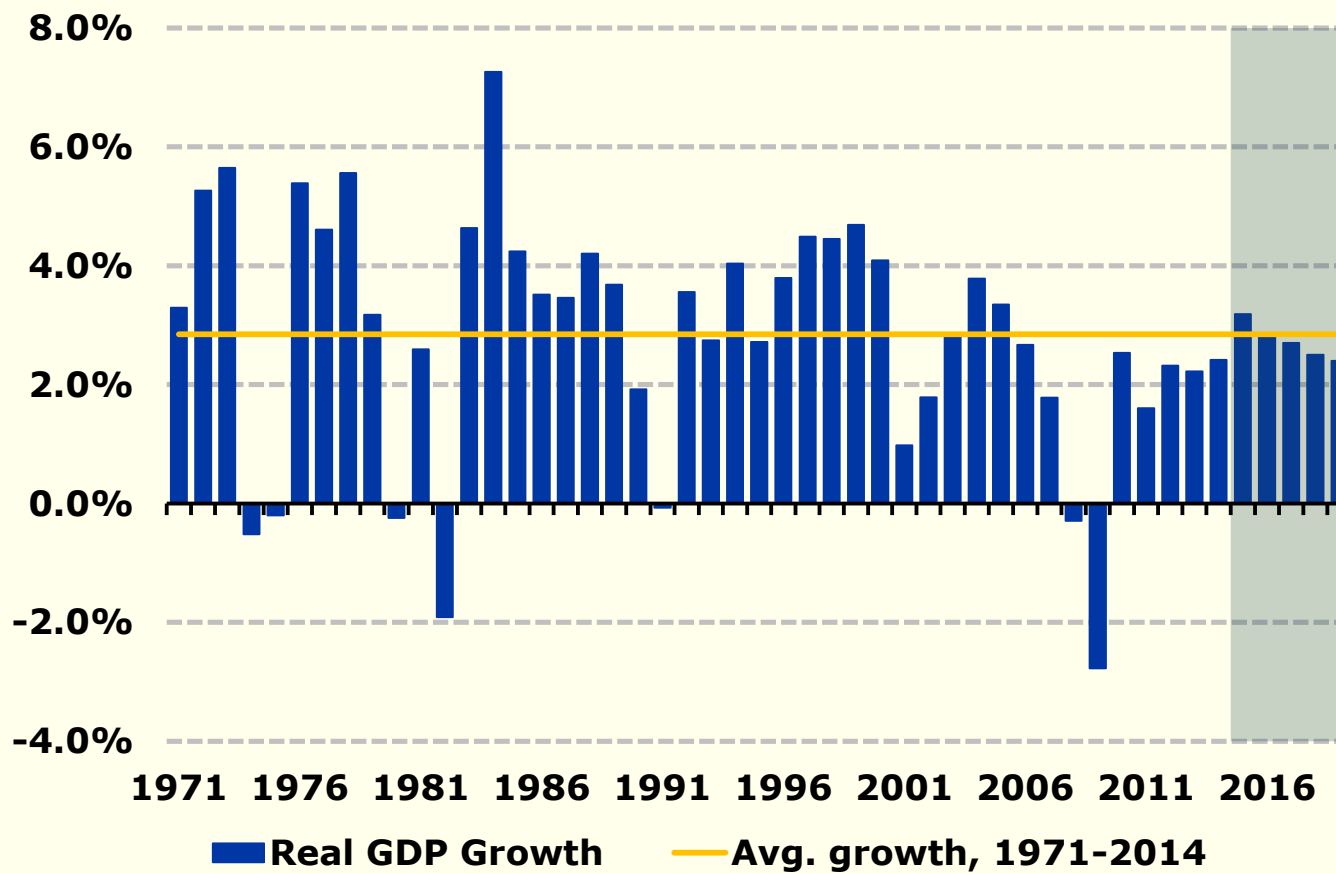
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





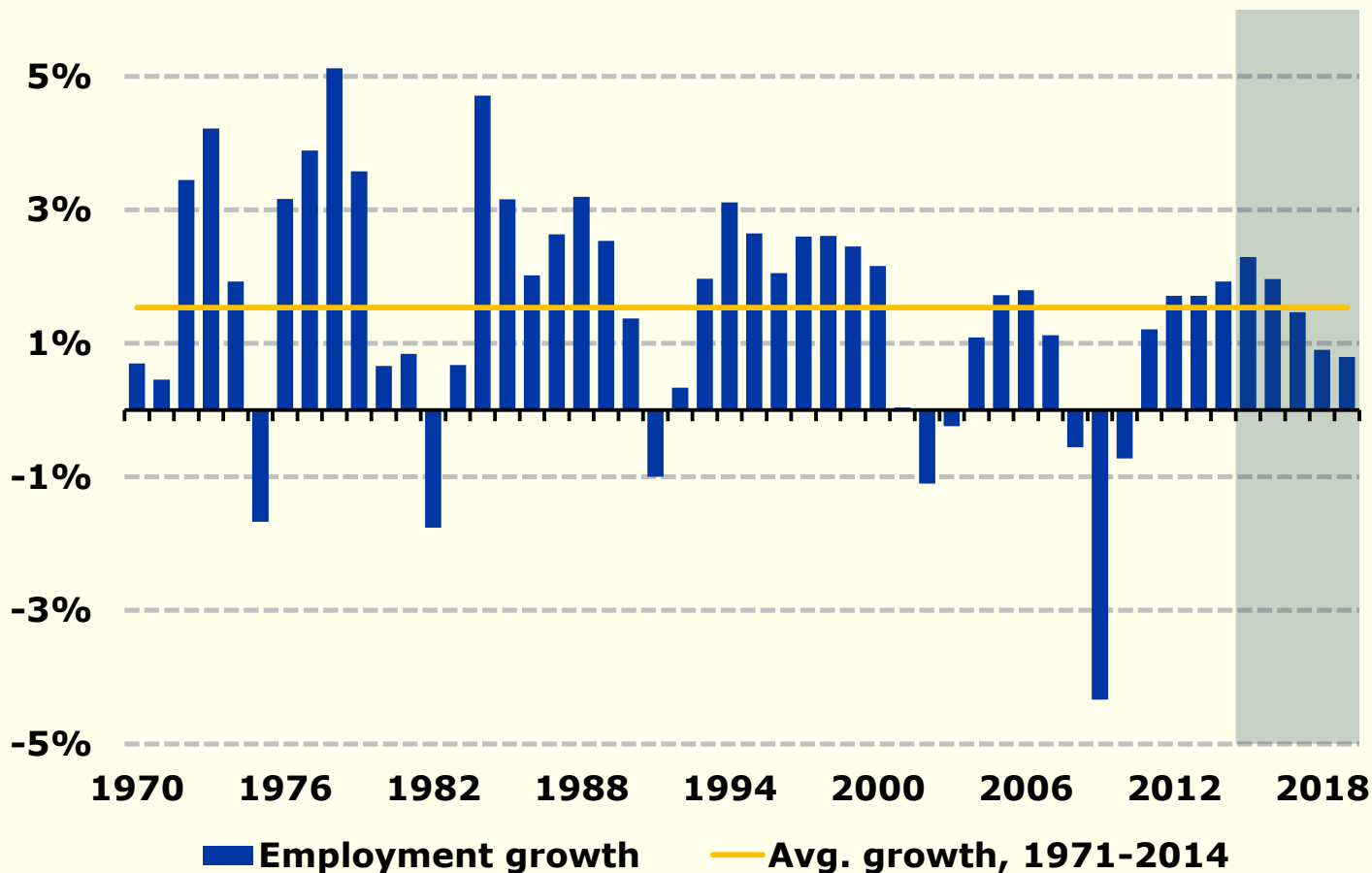
U.S. economic growth has been slower than in past recoveries



Source: BEA, historical data through 2014; ERFC February 2015 forecast 2015-19



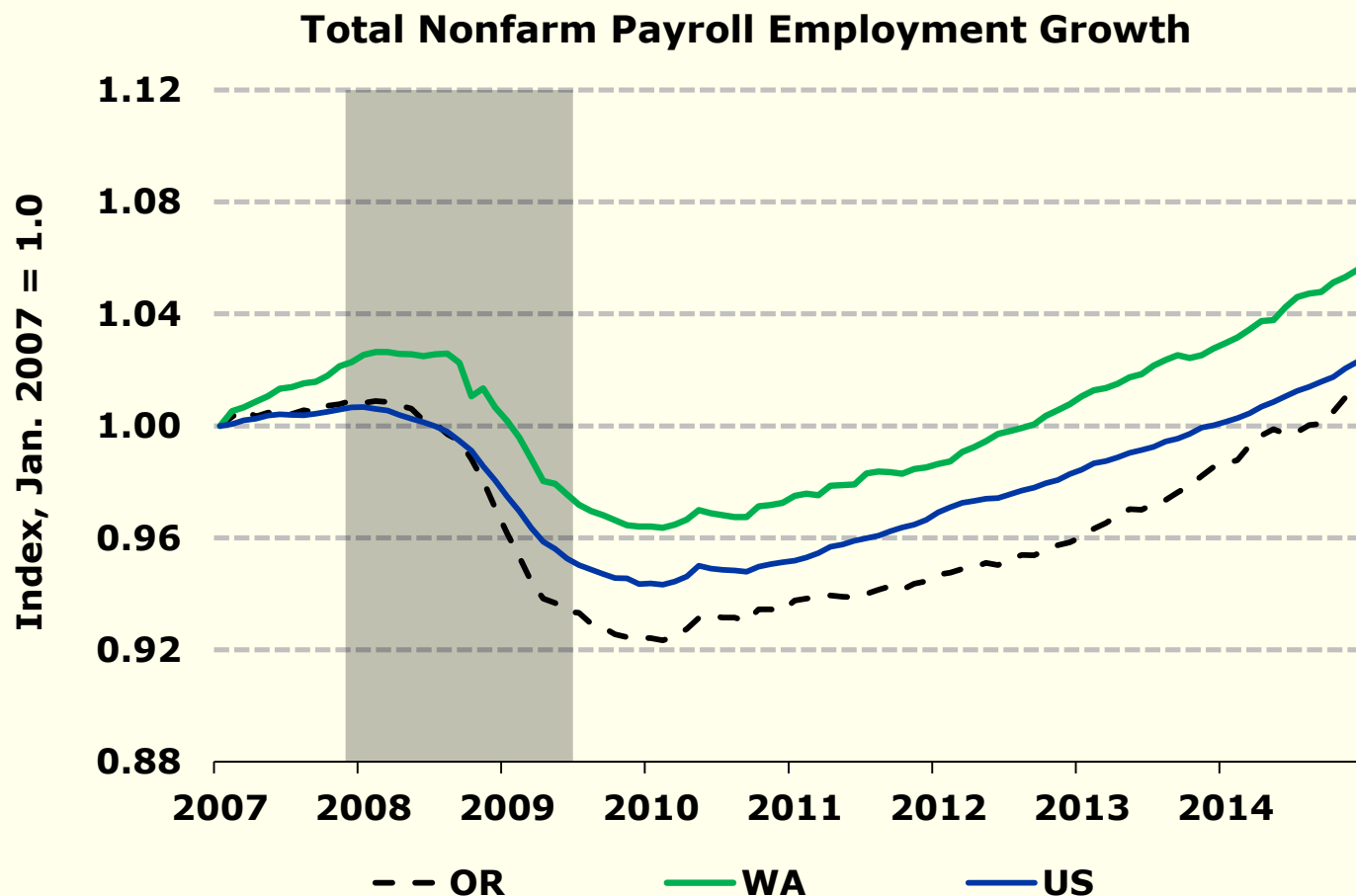
Demographics and declining unemployment will slow U.S. employment growth



Source: BLS, historical data through 2014; ERFC February 2015 forecast 2015-19



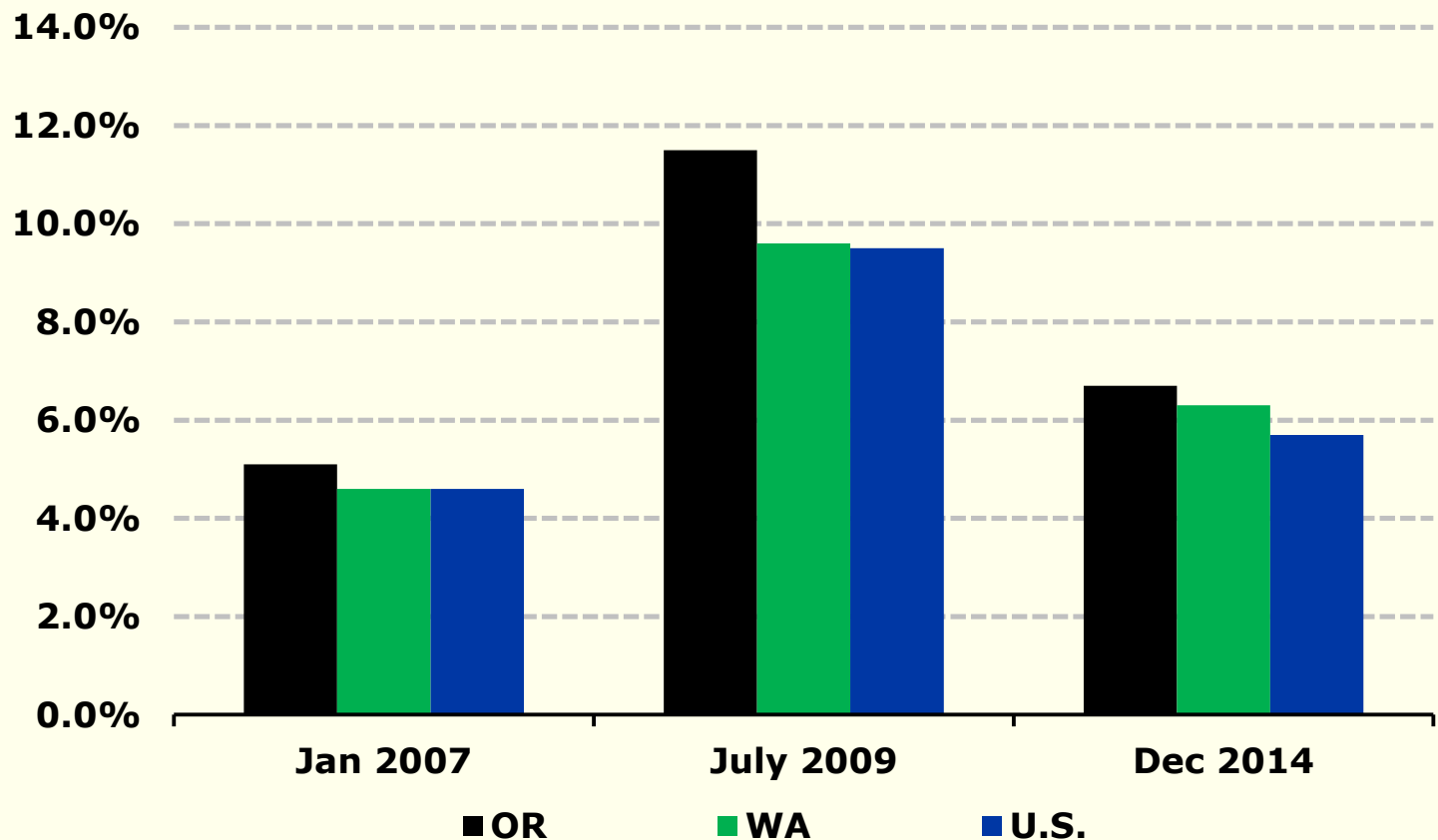
Employment growth since 2007



Source: BLS; data through December 2014



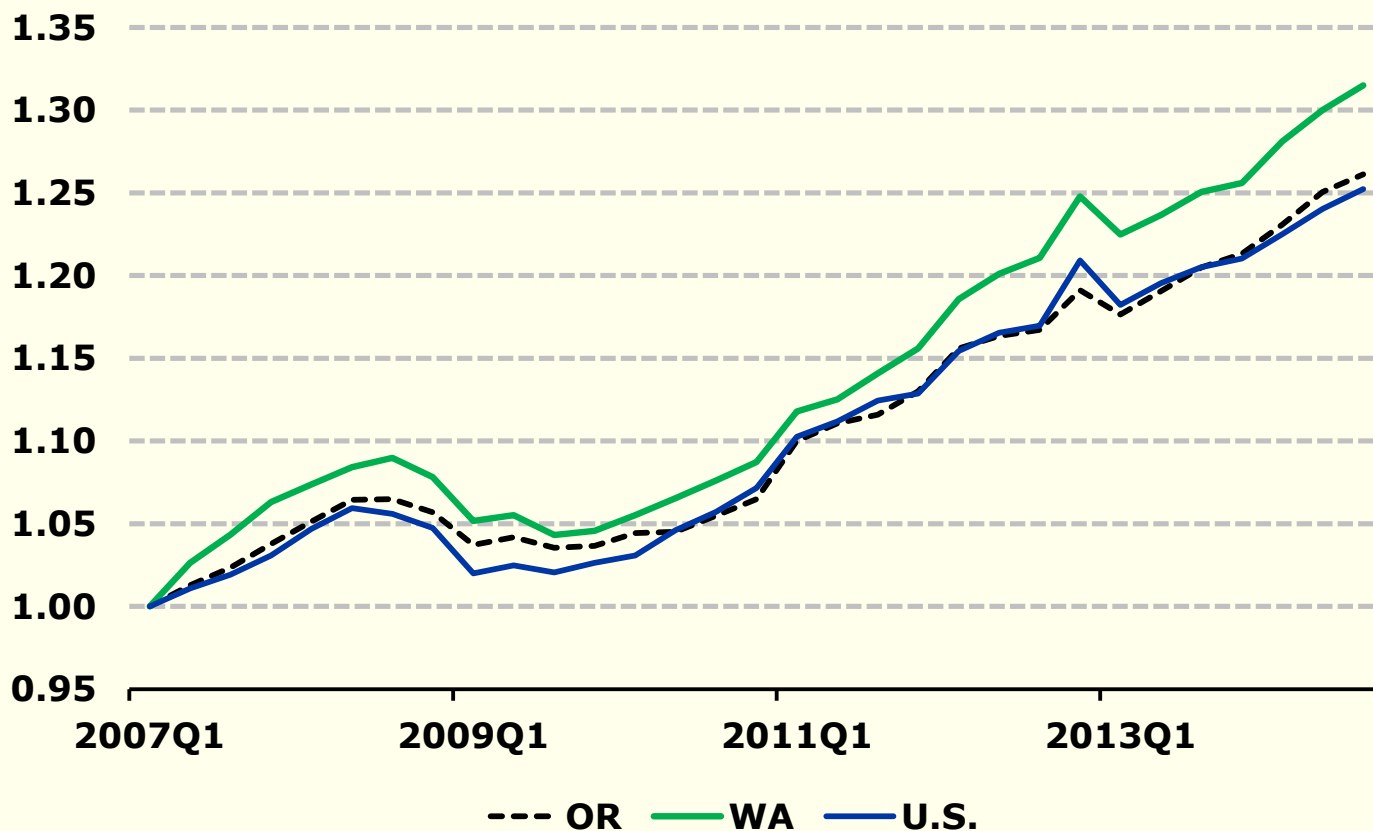
Unemployment rates are down but still above pre-recession levels



Source: BLS; data through December 2014



Personal income growth since 2007



Source: BEA; data through 2014 Q3



Non-transportation equipment exports are declining

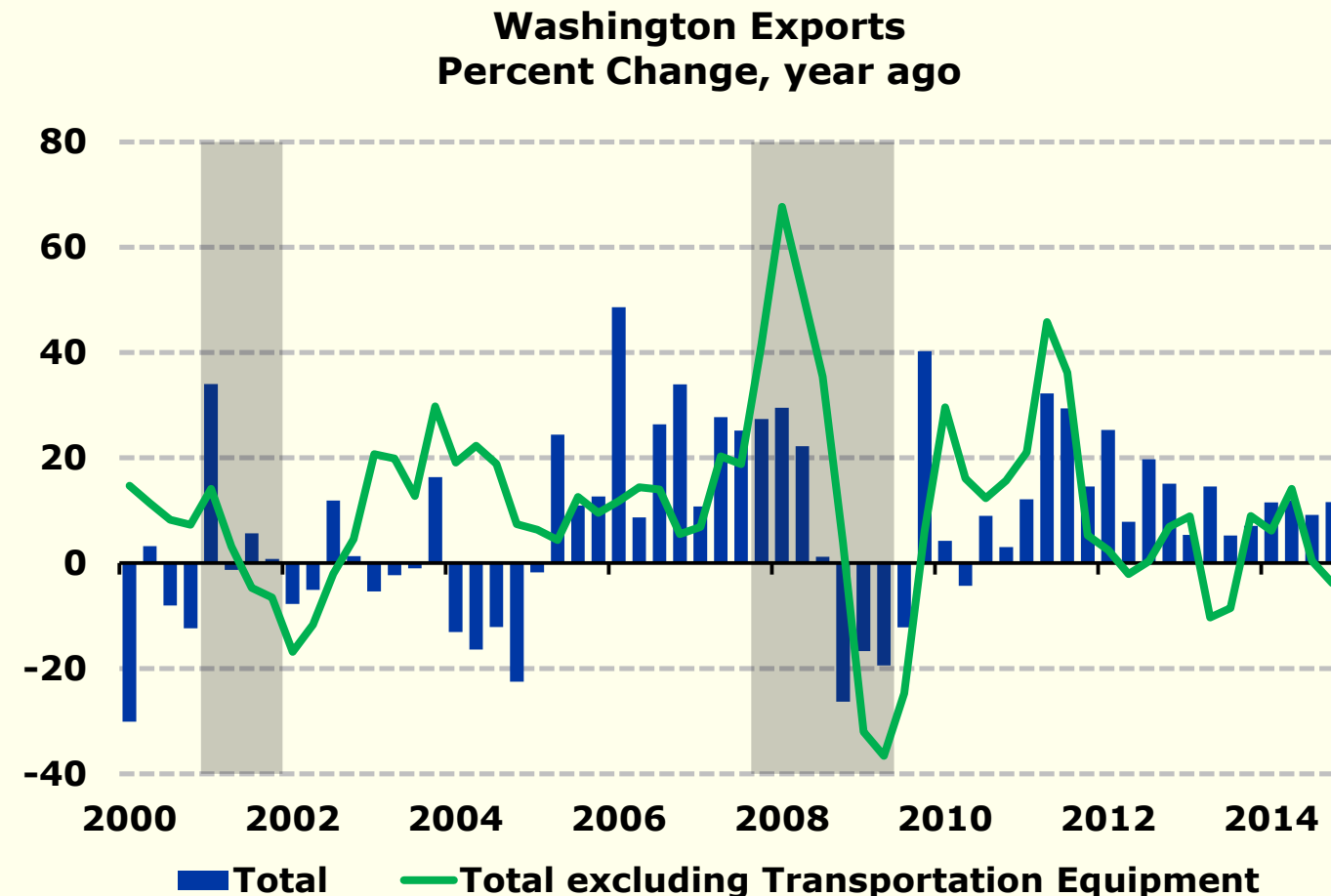
2014Q4
export
growth:

Agricultural
products:
+1.7%

Petrol/coal
products:
-12.4%

Computer &
electronics:
+7.2%

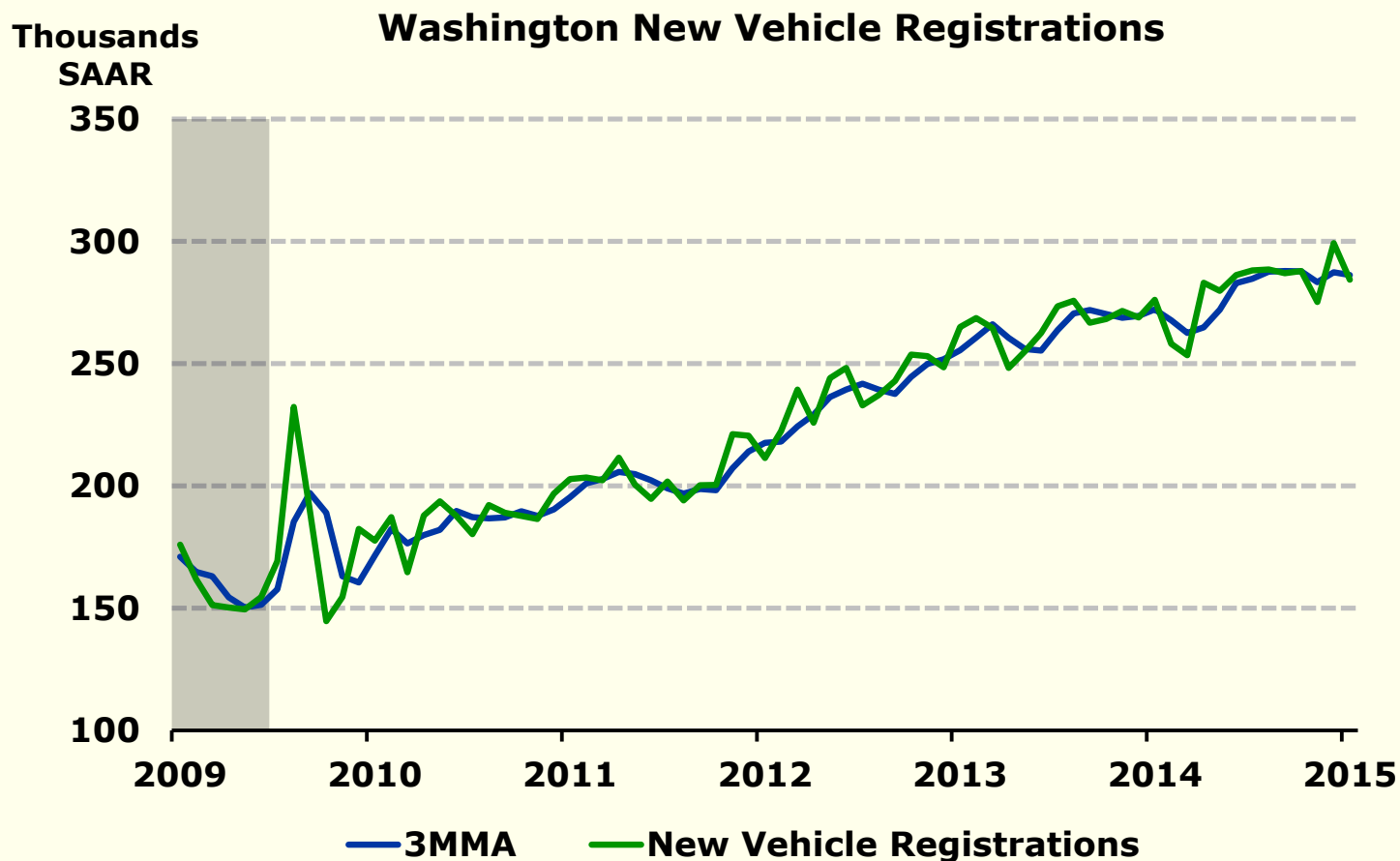
Food
products:
-11.5%



Source: Wiser Trade Data; through 2014Q4

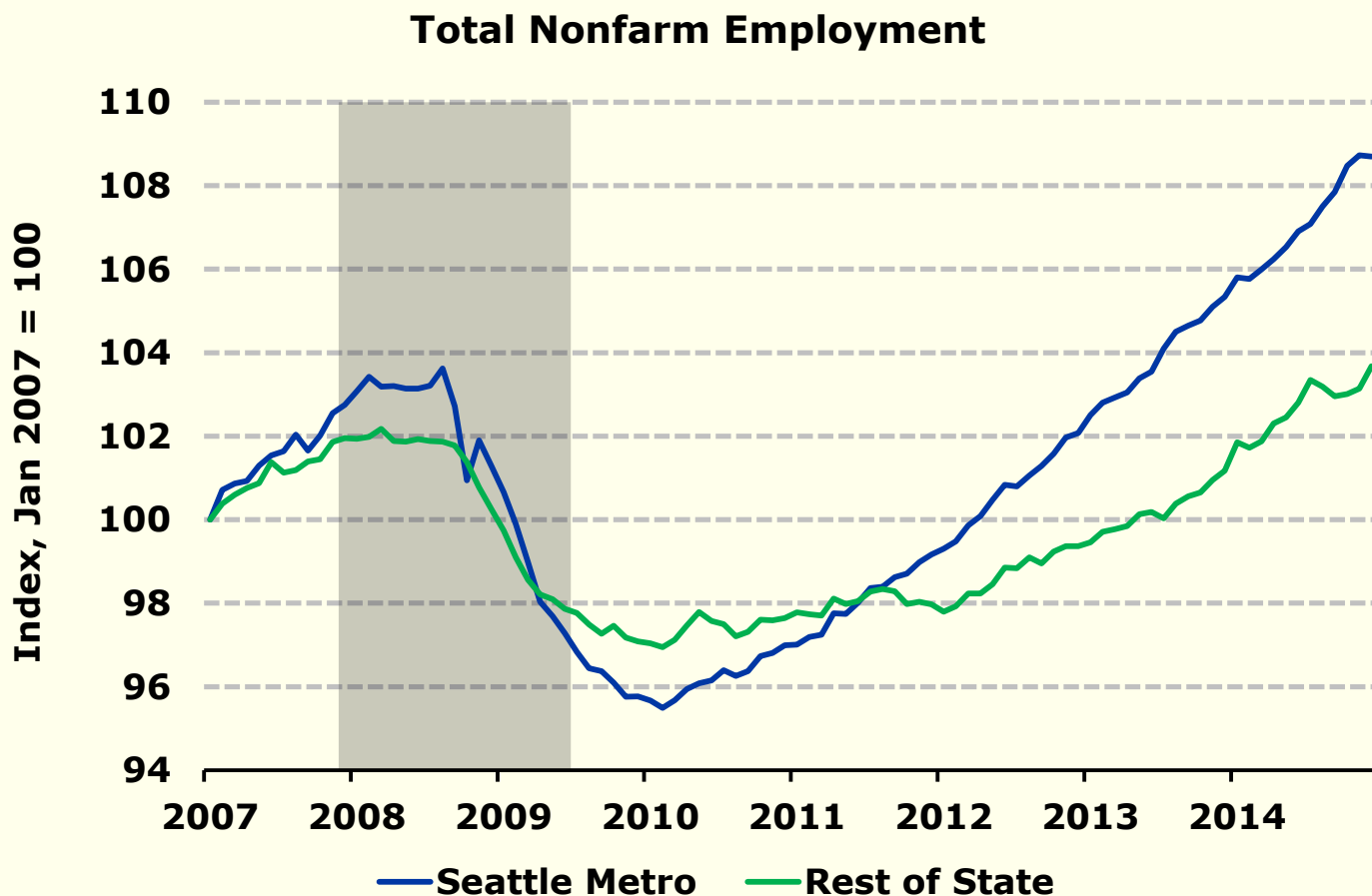


Washington new vehicle registrations may be slowing



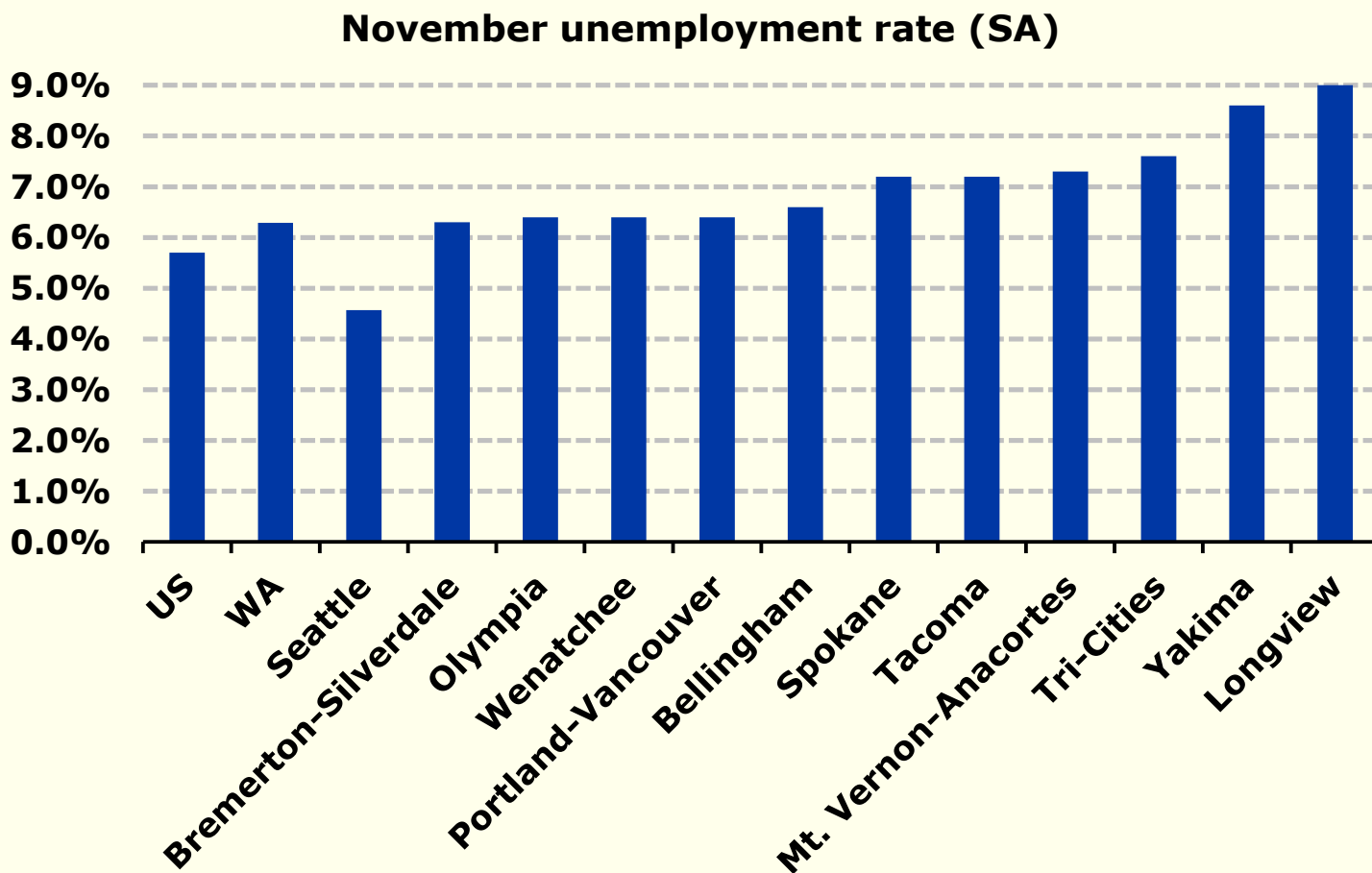


Seattle area employment is growing much faster than the rest of the state





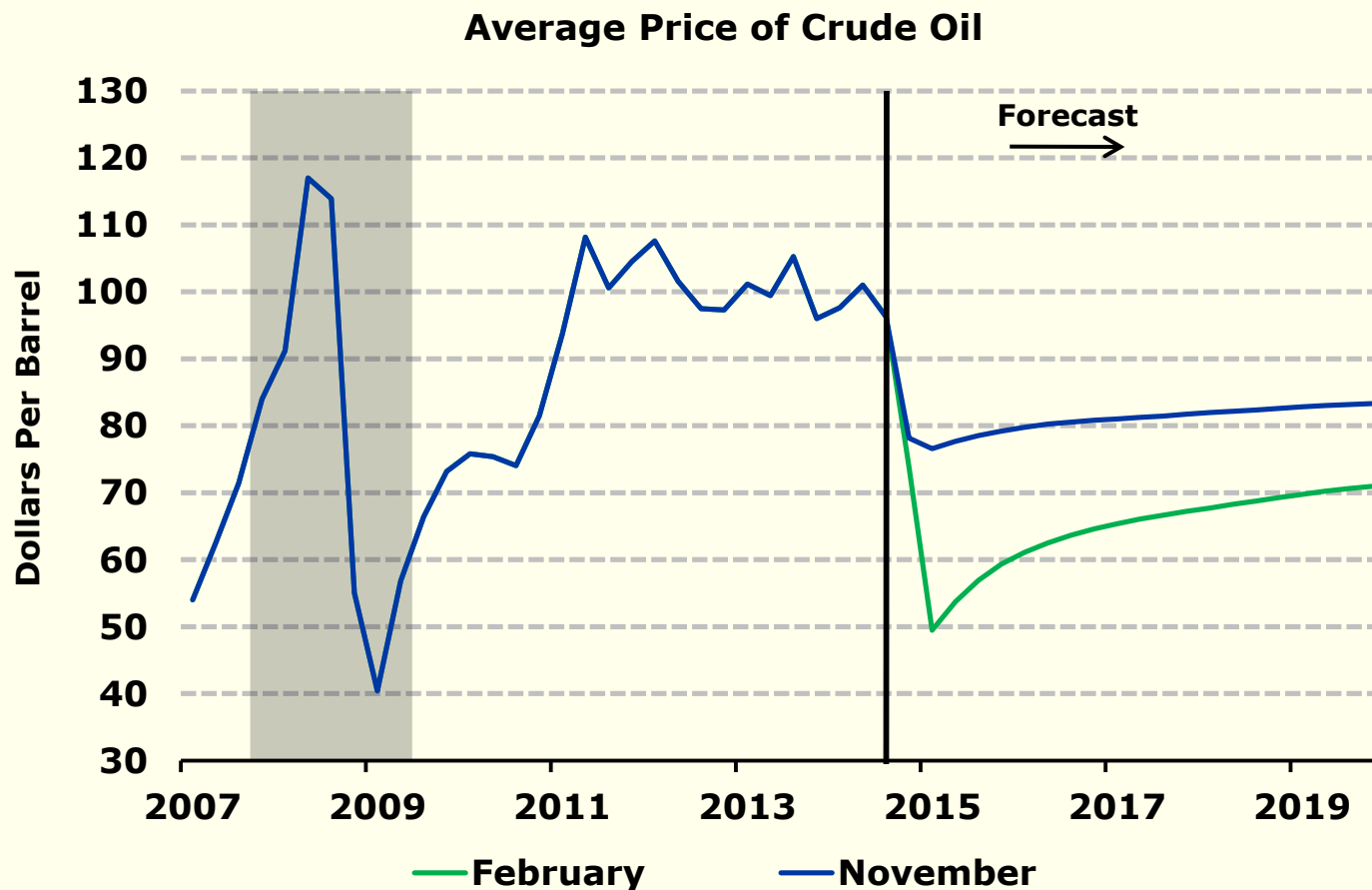
Seattle continues to have the lowest unemployment rate among state metropolitan areas



Source: Employment Security Dept. BLS, December 2014 data

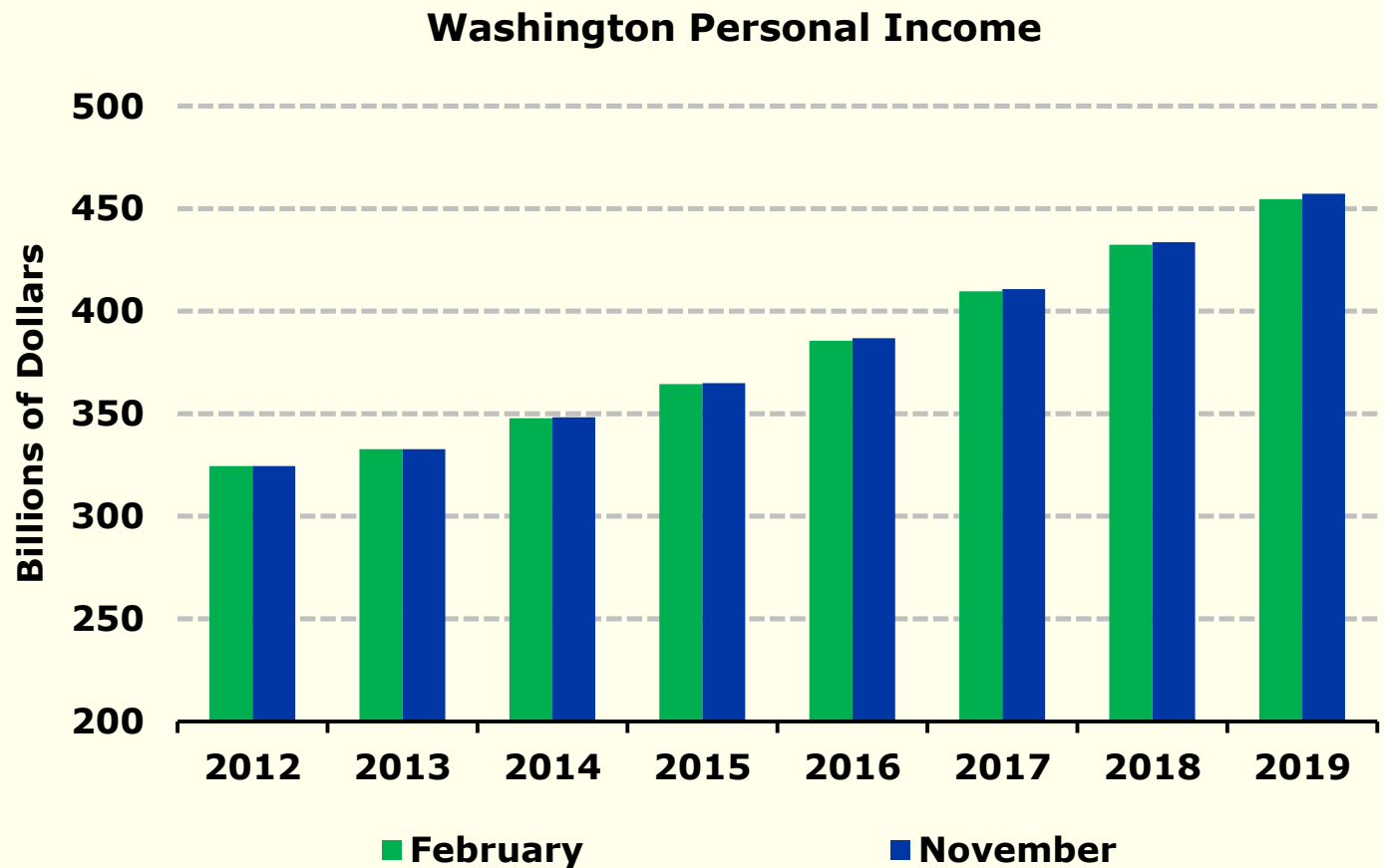


Oil prices dropped even further than expected in November





Washington personal income forecast is almost identical to November forecast

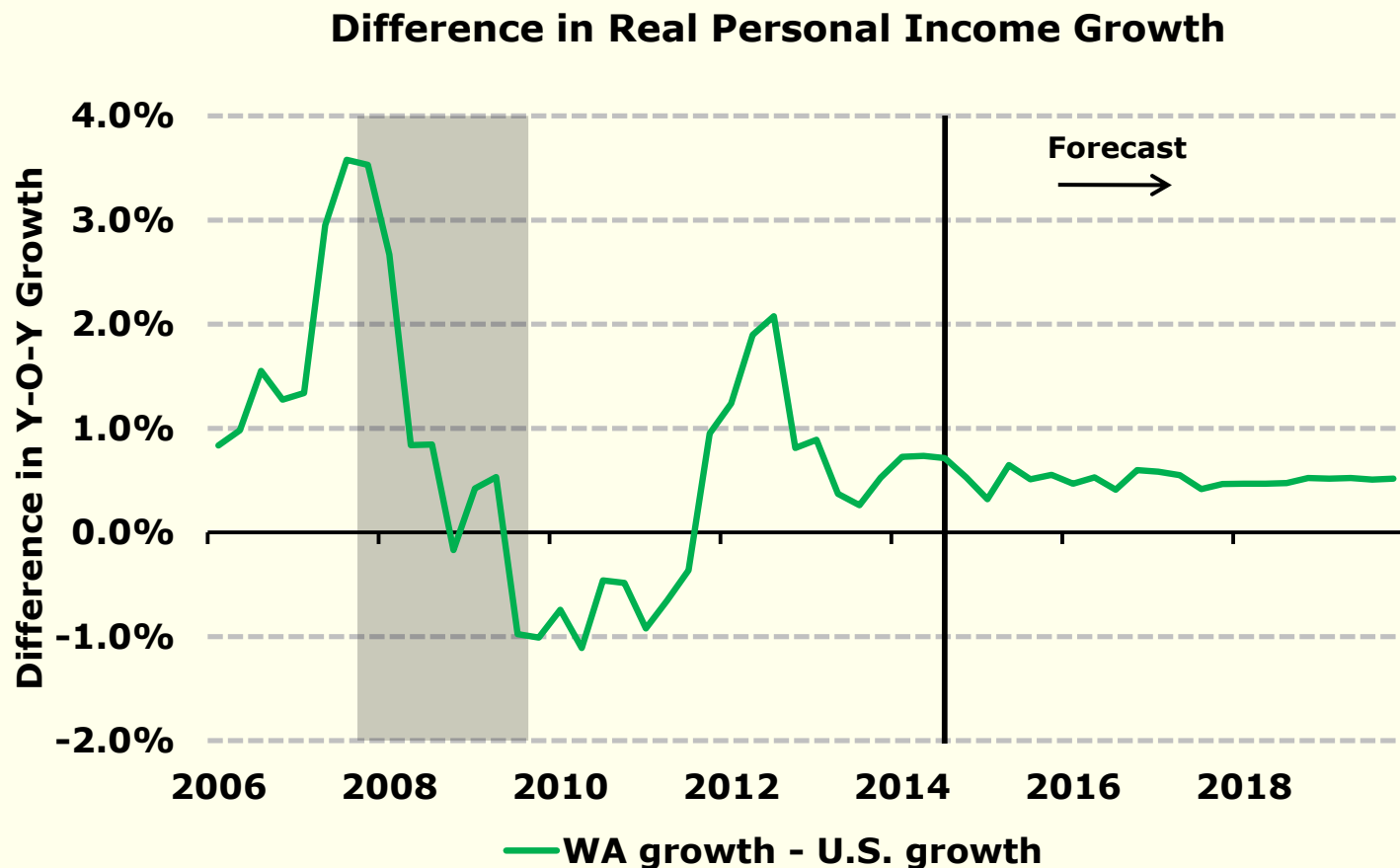


Source: ERFC February 2015 forecast; historical data through 2013



State personal income will grow slightly faster than the U.S.

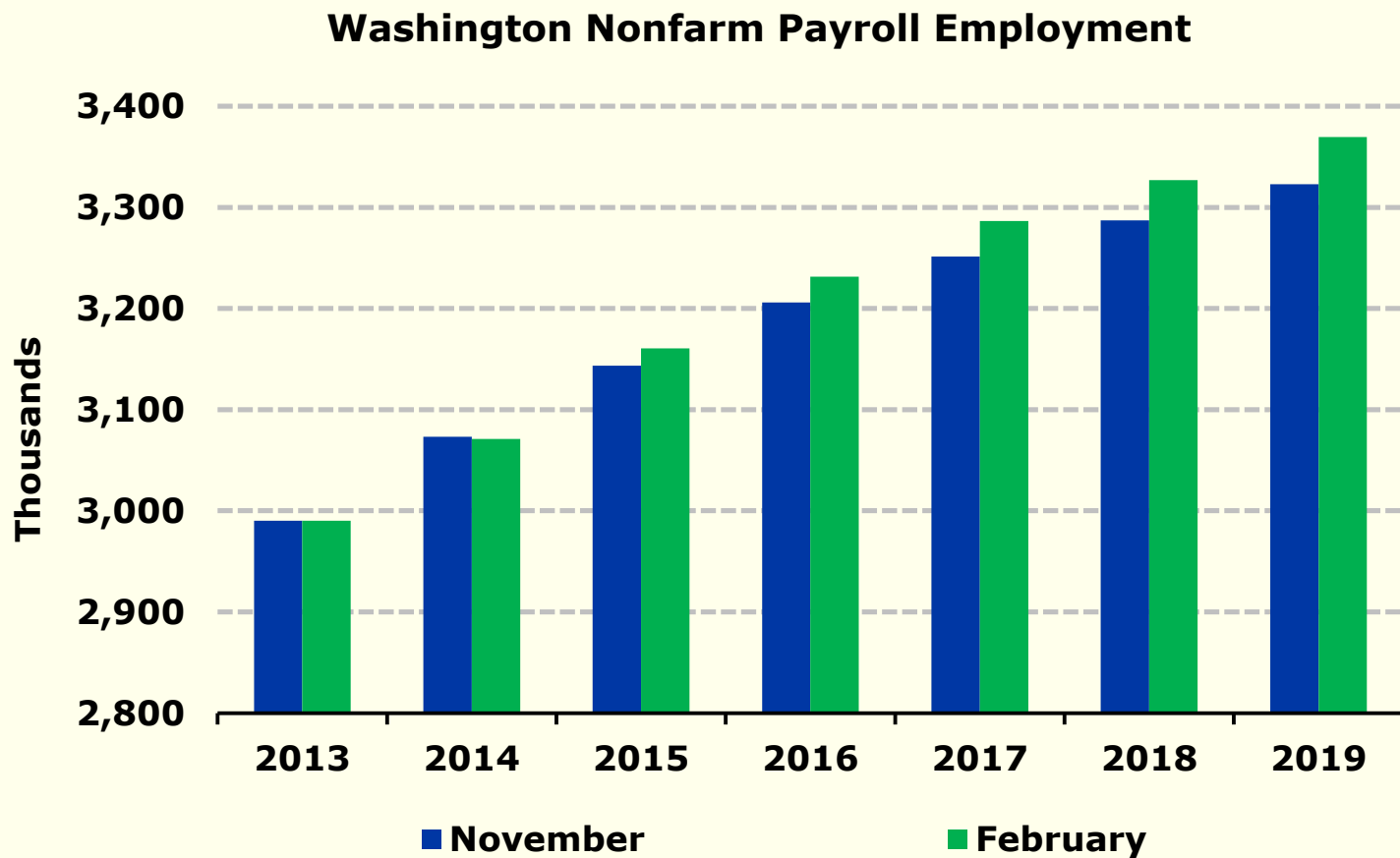
Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



Source: ERFC February 2015 forecast; historical data through 2014Q3



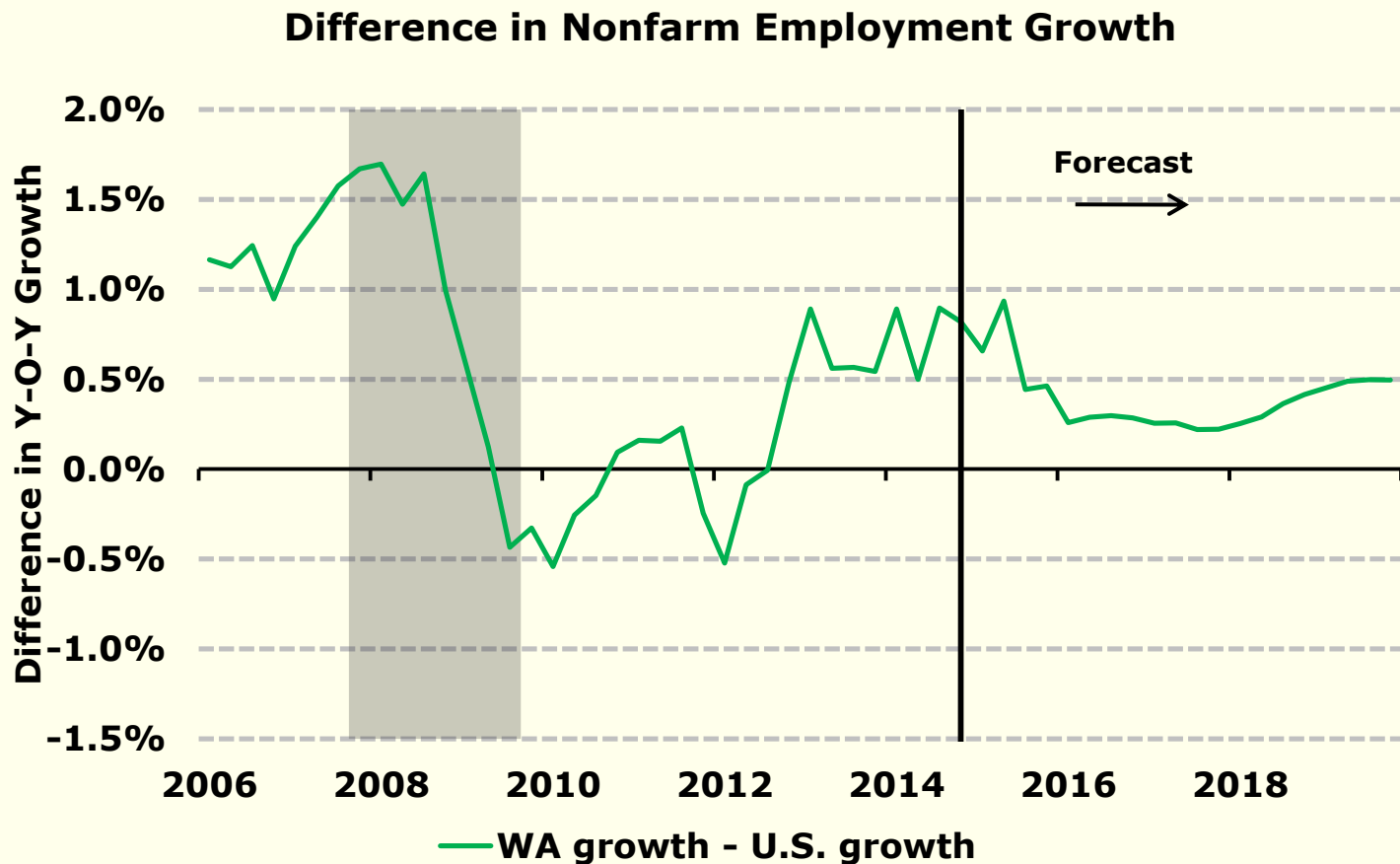
Washington employment forecast revised up



Source: ERFC February 2015 forecast; historical data through 2014



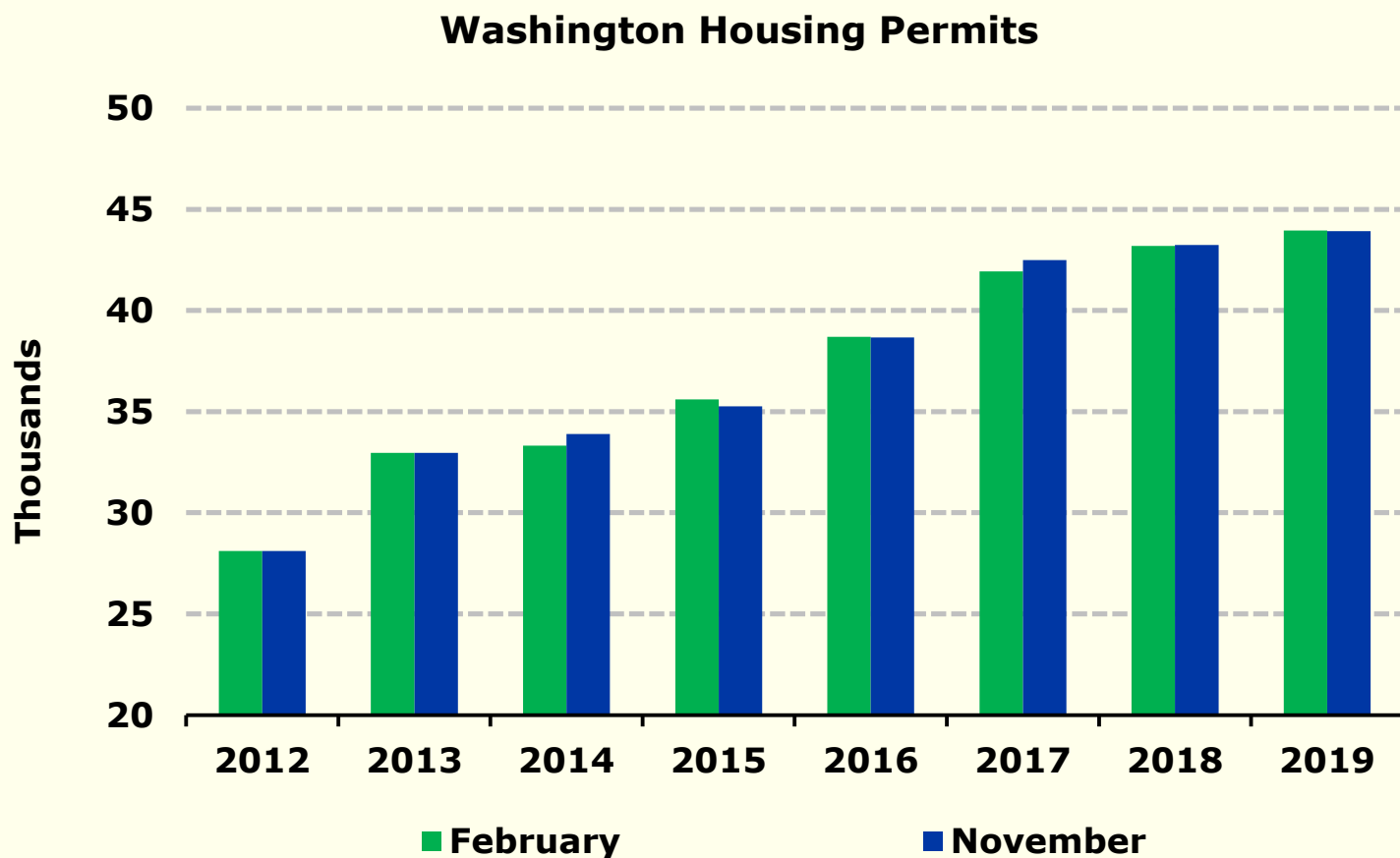
Washington employment will grow slightly faster than the U.S.



Source: ERFC February 2015 forecast; historical data through 2014Q4



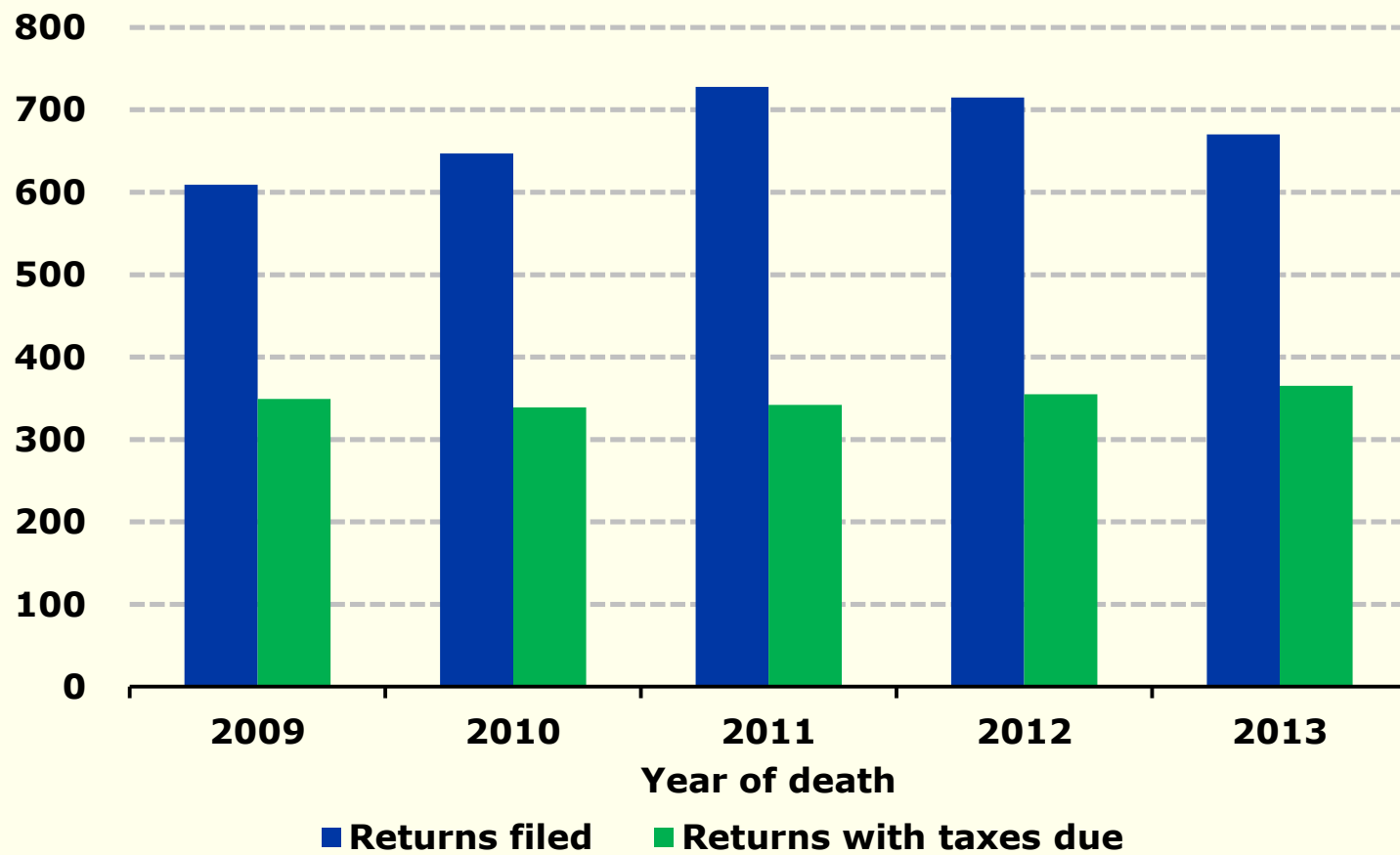
Washington housing permits forecast is similar to the November forecast



Source: ERFC February 2015 forecast; historical data through 2014



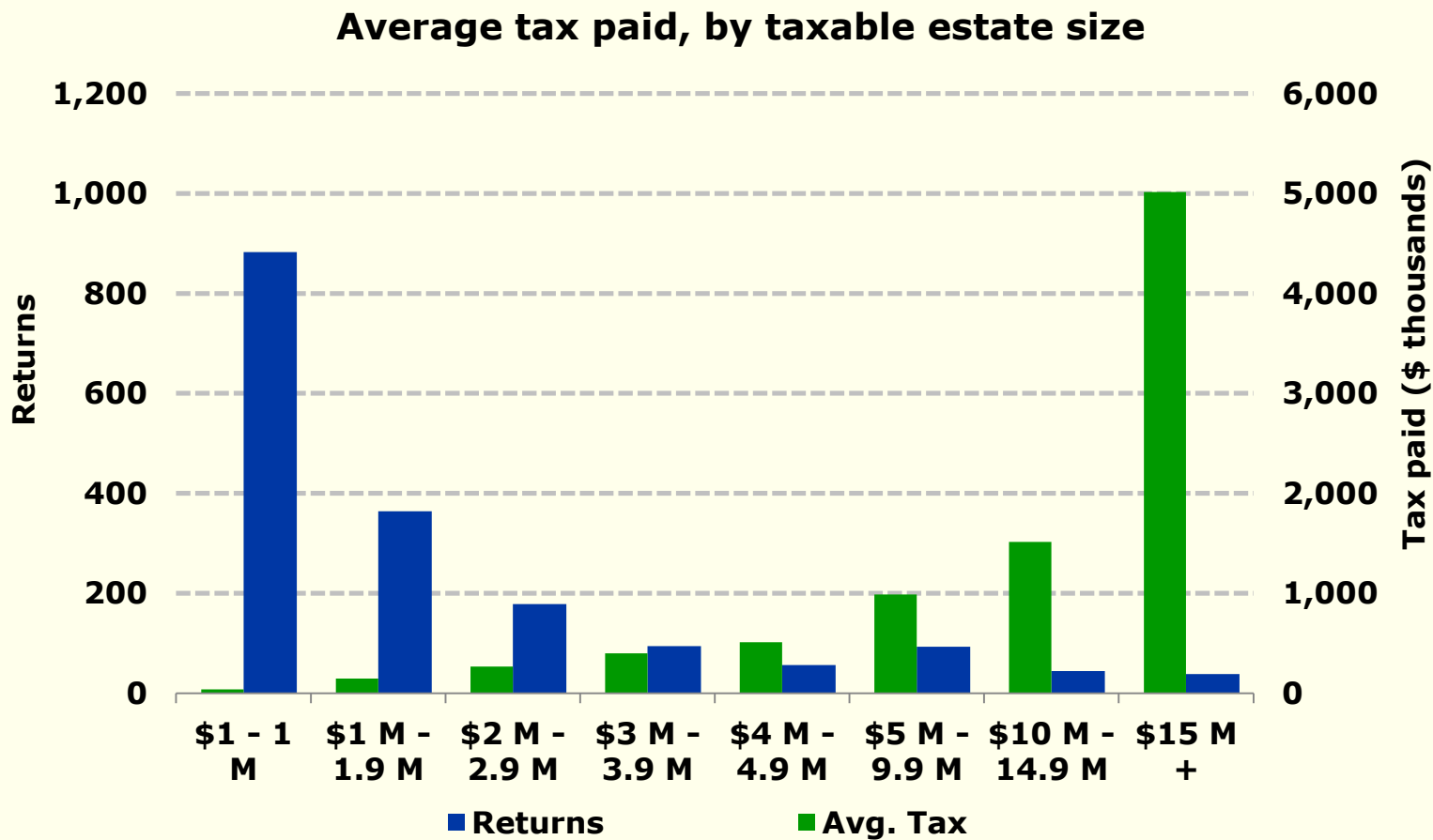
The number of Washington estate tax returns has been fairly constant



Source: Dept. of Revenue; data through November 2014



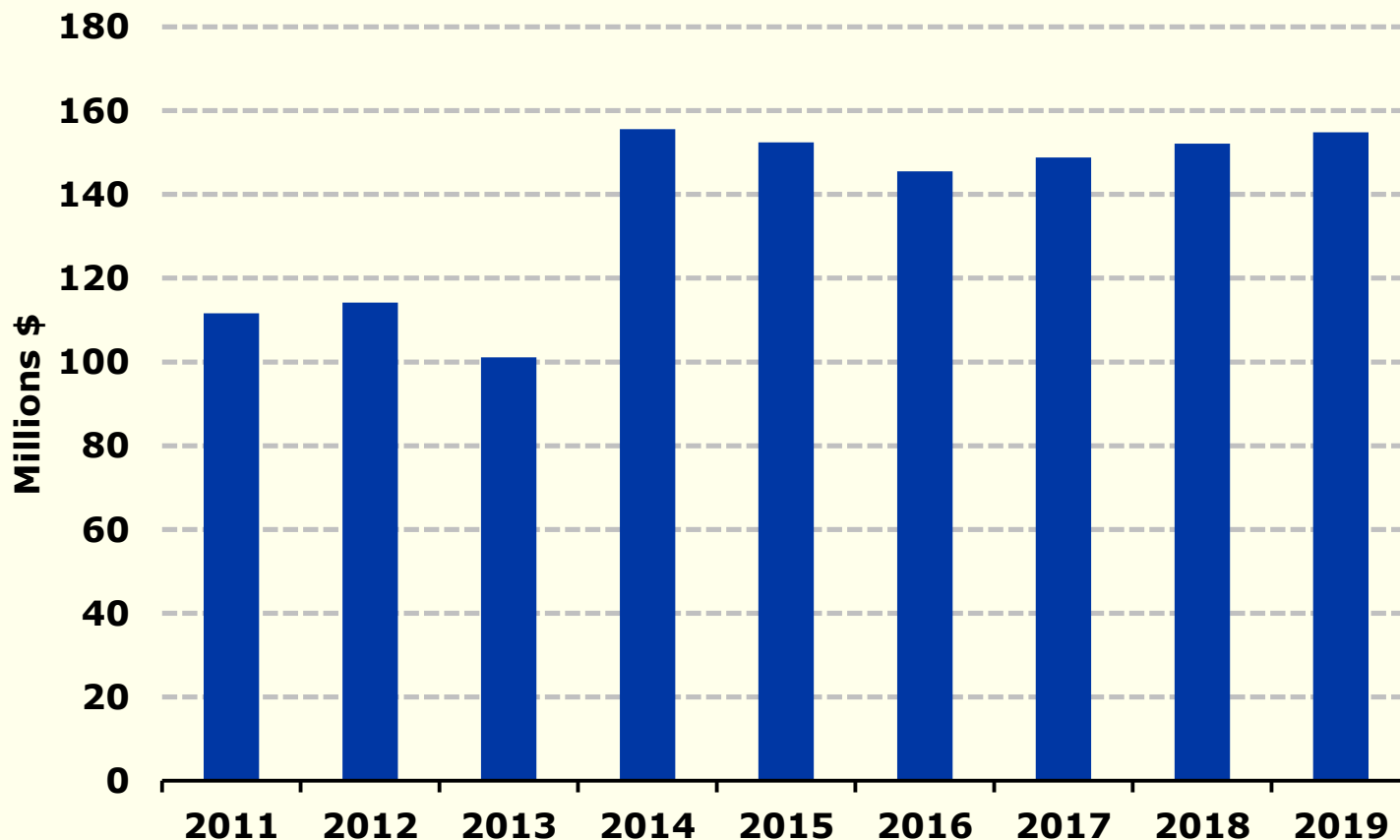
Average tax per taxable estate, 2009 through 2013



Source: Dept. of Revenue; data through 2013



Estate tax collections and forecast



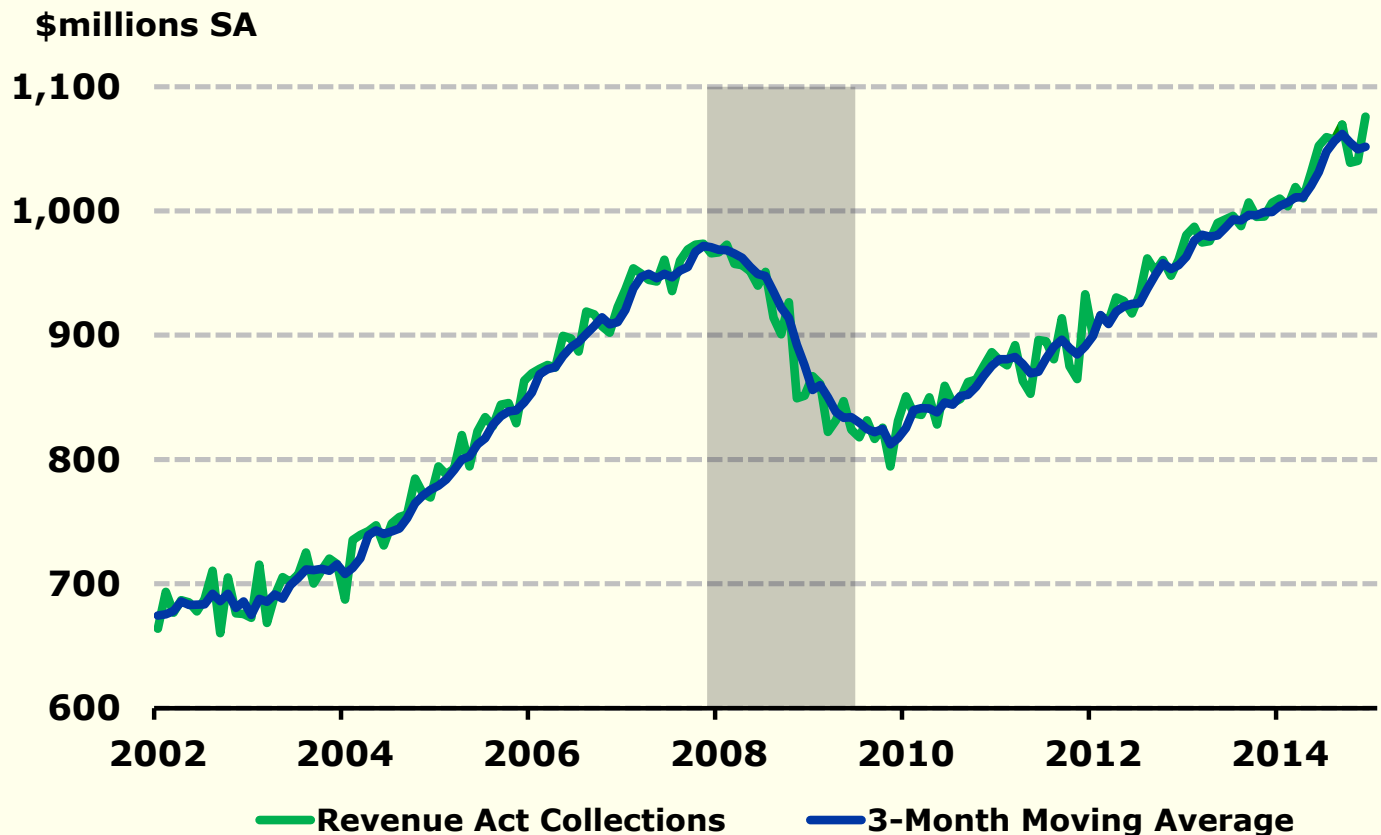
Source: Dept. of Revenue, ERFC; fiscal years, forecast 2015 - 2019



The Q4 decline in Revenue Act collections was expected after a strong Q3

Adjusted Y-O-Y growth for 4th quarter activity was 5.8%. Third quarter growth was 7.2%.

Adjusted collections for 4th quarter activity came in only 0.3% higher than the November forecast.

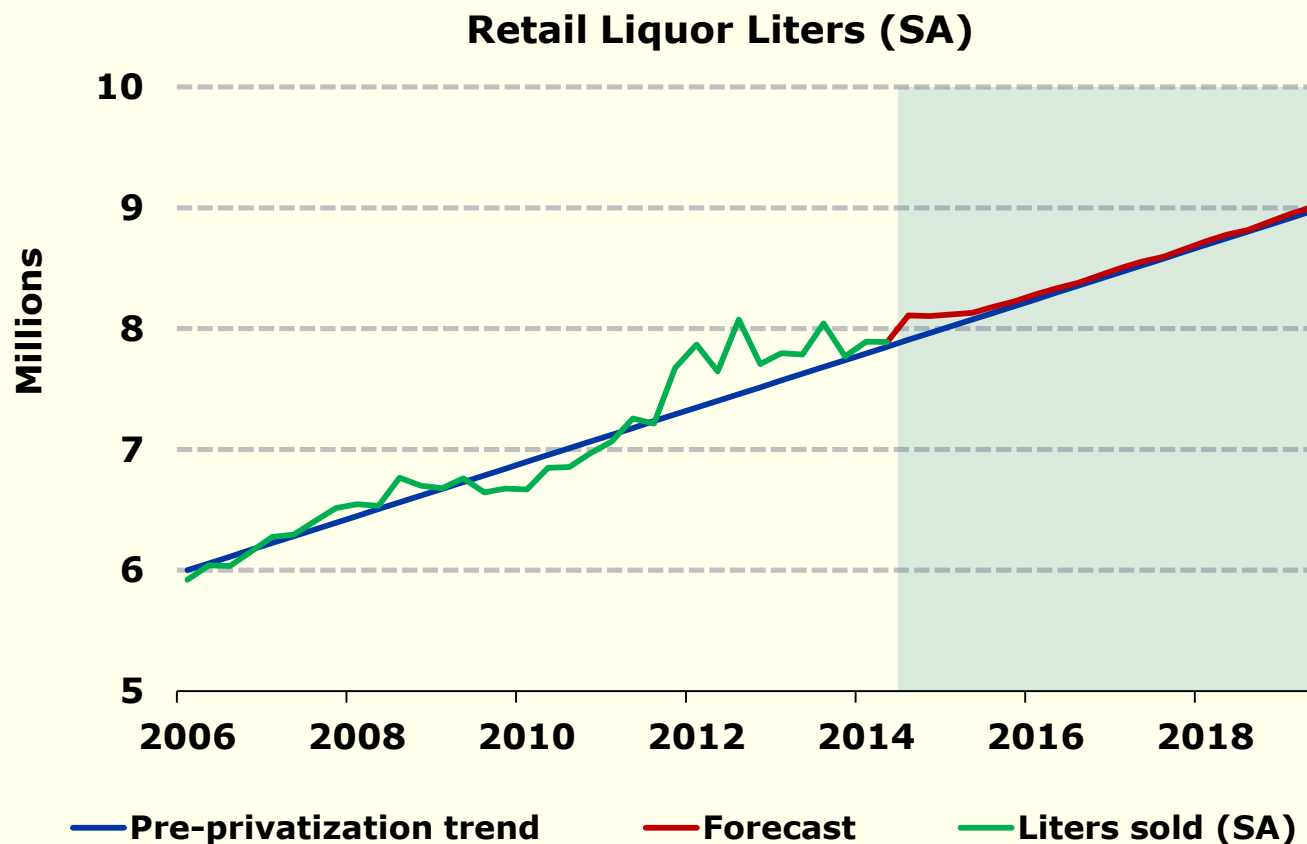


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2014 activity



The surge from liquor privatization is over



Source: DOR, ERFC February 2015 forecast; historical data through 2014 Q4



The number of cannabis establishments continues to grow

Growth in Establishments:
(July to January)

Producer
8 to 64

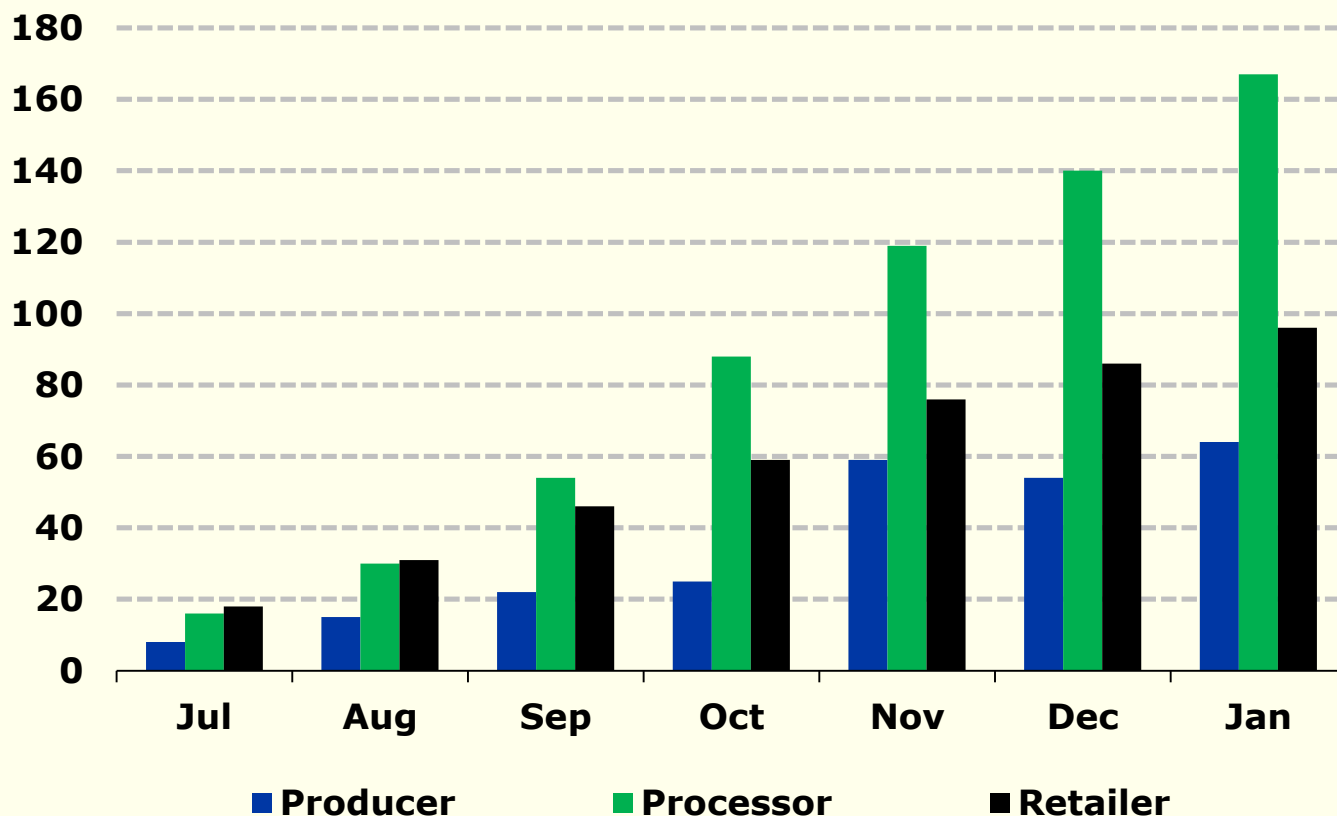
Processor
16 to 167

Retail
18 to 96

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Cannabis Establishments



Source: LCB, ERFC; data through January 2015



Cannabis excise tax and license fee estimates

Total GF-S
change from
November
forecast:

•2013-15
+\$0.9 M

•2015-17
+\$3.2 M

•2017-19
+\$0.8 M

\$Millions

February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$6.7	\$39.3	\$65.7
Non-GF	\$36.8	\$182.3	\$297.1
Total	\$43.4	\$221.6	\$362.8

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



Conclusion

- The economic forecast is quite similar to November's forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Washington's economy will continue to be slightly stronger than the nation as a whole
- The level of uncertainty in the baseline remains elevated, with risks on both the upside and the downside



Questions



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